

The Performance Plan For Student Financial Assistance

The Requirement for this Plan

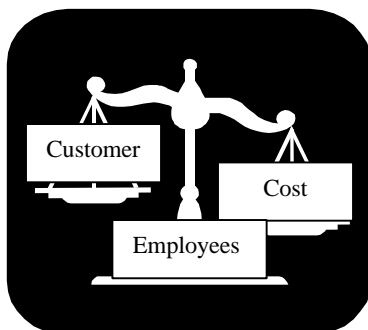
The Higher Education Act Amendments of 1998 require that the Chief Operating Officer of Student Financial Assistance “make available to the public a performance plan...for the succeeding five years that establishes measurable goals and objectives for the organization.” The plan must address the following:

- Improving Service
- Reducing Costs
- Improving and Integrating Support Systems, and
- Developing an Open, Common, and Integrated Delivery and Information System

This document contains detailed information on our goals for improving service, reducing costs, and to some extent, systems integration and the modernization plans that support these efforts. Our goals for addressing improvement and integration of support systems and the development of an integrated delivery and information system are addressed in depth in our System Modernization Blueprint, which should be considered part of this performance plan. For more detailed information on our integration and modernization plans, we invite you to review our System Modernization Blueprint, which is available on the Web at <http://sfablueprint.ed.gov>. If you have questions about our five-year performance plan, please e-mail SFAFiveYearPerformancePlan@ed.gov.

Performance Measures and Objectives

The measures of my performance as Chief Operating Officer, and that of Student Financial Assistance overall, are customer satisfaction, unit cost, and — because it is essential to improving both — employee satisfaction. It is a simple, balanced scorecard like the best in business use — companies



like FedEx and American Express — even successful public organizations like the US Postal Service.

Our five-year goals are stated in terms of specific, quantifiable improvements in those three measures¹. Each measure and each goal is discussed in the following paragraphs. But, since we are still in our first year as a PBO — a transition year — we are still in the process of developing the thorough data gathering and measurement systems that a PBO needs. We have aggregate baselines and tracking mechanisms for all three measures, but we will be refining each and expanding their application during this transition year.

A Simple Scorecard

To make rapid changes in large organizations, you have to keep the goals simple — three things that everyone in the organization can relate to his job and use to make good choices. It has worked for government as well as the best in business. Dan Goldin took NASA from being a source of national concern to being one of pride with three, simple goals: safe shuttle flights, building the space station, and reaching Mars. The US Postal Service boosted on-time delivery in Washington and Chicago from 50 percent to over 90 percent with the same simple, balanced scorecard we will use: focused on customers, cost, and employees.

Since we are in transition, we augmented each of our five-year goals with a specific and verifiable commitment for the first full year, FY2000. It is a kind of *down payment* on the long-term plan. In addition, SFA will undertake a substantial list of first-year projects (Appendix A), all of which are designed to improve customer and employee satisfaction and to reduce cost.

Customer Satisfaction Measure We will let the customers be our judge. It is far too common for agencies — and for that matter, businesses — to decide for themselves what customers want, and then measure performance on that. It's almost always the wrong thing.

A classic example is the state drivers license bureau that decided their customers wanted shorter lines. The bureau had devised an expensive plan to add more examiners and a faster computer system. But when they *asked*

¹ These goals will be used as the SFA portion of the Department's Government Performance and Results Act (GPRA) plan.

their customers, they found the number one complaint was not the long lines, but the unflattering photos.

Using a Customer Service Task Force, we asked our customers *before* we devised our plan. They gave us a good list of first-year projects to work on, which are included in Appendix A. We will track the progress of those projects, but our ultimate goal will be to increase customer satisfaction. So we will keep asking customers what they want.

Subjective and Objective

Customer satisfaction is subjective. But by asking customers their likes and dislikes, we learn what changes to make in our systems and services — changes we can measure objectively, like how fast we turn around an application. These changes should improve customer satisfaction. We plan to measure objective service changes as well as the ultimate, subjective, customer satisfaction.

Our Customer Service Task Force collected nearly 8000 comments from customers and front-line employees about what works well, and what doesn't. Many of their recommendations (www.ed.gov/cstf) are on our first year to-do list.

We will keep getting customer feedback so we will have a new to-do list each year. But we will constantly measure customer satisfaction.

Keeping Our Balance

The customer, cost, and employee goals will work throughout the organization. Balancing these goals, a call-center operator might decide to spend a little more time completely answering a customer's question and avoid our cost of having him call again. A programmer would rewrite software in the Java language so more customers can use it and it's cheaper for us to maintain. A division manager could decide to invest in laptops and cell-phones so our caseworkers can spend more time on campus and know what's going on. A simple, balanced scorecard does more than measure performance — it aligns everyone to improve it.

Recently, for the first time, SFA got scored in the American Customer Satisfaction Index, an annual survey done by the University of Michigan. Since 1994, Michigan has conducted surveys and published quarterly customer satisfaction ratings for hundreds of private businesses — ratings that stock market analysts routinely use to predict future financial performance. Their surveys have included a few government agencies — the IRS, the Postal Service, local police and garbage collection. Over the past five years, on a scale of 100, private sector index scores for the finance and insurance industry — the segment most like SFA — have been in the mid-70s. Public sector scores have been ten to 15 points lower.

This past quarter, Michigan expanded the ACSI to cover dozens of federal agencies, including SFA, that have direct contact with the public. In our

case, the University of Michigan surveyed only students and parents who had applied for federal aid using our on-line, Web-based application. Those customers gave us a satisfaction index score of 63 — about average for government services.

Past surveys of SFA customers conducted in different ways by other groups, such as Macro, have produced higher ratings. But ACSI is a national standard that allows us to compare ourselves with the best in business. Our goal is to raise our ACSI rating to 74 — the comparable private sector service industry average — by the year 2002.

Interim Performance

Last winter we published interim performance Indicators of Success to guide SFA until we finished this first full-fledged performance plan this September. The interim performance Indicators of Success fall into three categories:

- **Improve Customer Service** — by encouraging customers to apply on-line rather than on paper, introducing new electronic services, and collaborating better with partners who also serve our customers.
- **Reduce the Overall Cost of Delivering Student Aid** — by beginning with the development of cost baselines and a financial management system to accurately measure unit costs and track our \$150 billion loan portfolio.
- **Transform SFA into a Performance-Based Organization** — by laying the groundwork so we can operate like the best in business with satisfied customers and employees, modern information technology, and a system to turn customer complaints into service improvements.

We've made good progress. Our latest quarterly report on the interim Indicators of Success is at Appendix B. We will publish the same kind of quarterly reports on our progress toward the goals in this five-year plan.

We will call on the University of Michigan and others to help us greatly expand the survey readings on our entire customer population — information in enough depth and detail to use for management. We will need to know what aspects of our service — timeliness, courtesy, and so forth — are satisfactory or need improvement. We will need useful, *actionable* information at every level of our organization.

This year, we will develop detailed customer satisfaction surveys and ratings for each of our ten core business processes.

Student Services

- Aid Awareness
- Aid Application
- Loan Repayment

School Services

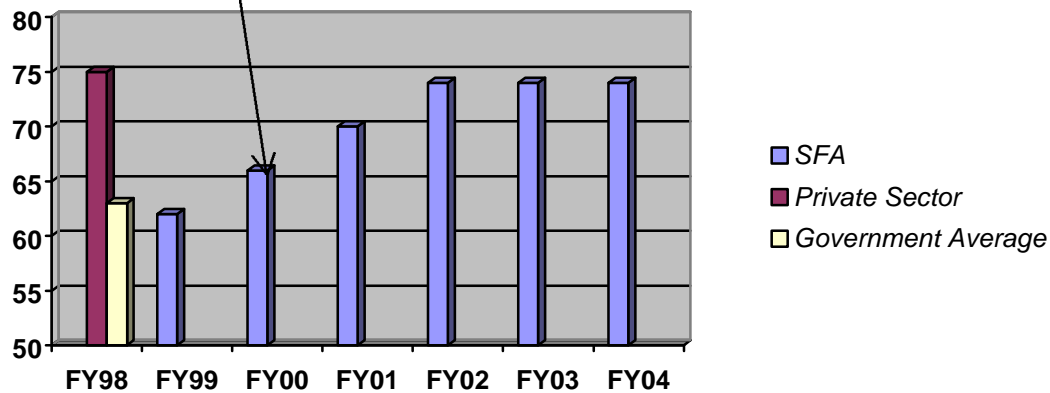
- Aid Origination and Disbursement
- Program Eligibility
- Program Support
- Financial Transactions

Financial Partner Services

- Program Eligibility
- Program Support
- Financial Transactions

The surveys we run on these core business processes will ask whether the student, school, or financial partner has seen an improvement in service during our fiscal year 2000. As a down payment on our commitment to bring our customer satisfaction ratings up equal to the best in business, we will commit to deliver an improvement in satisfaction — as measured by the “have we gotten better this year” question — for six out of ten of our core business processes, with a substantial number of customers (70 percent or more) reporting improvements in at least one process for each channel. Of course, we won’t let customer satisfaction with any of our processes slip.

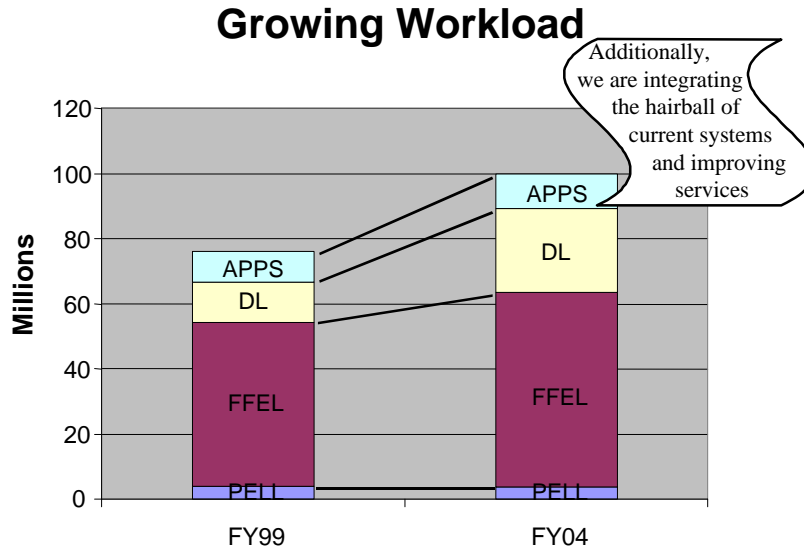
**FY2000 Down Payment:
Improvement in six core
business processes**



SFA Customer Satisfaction Equal to Private Sector in Three Years

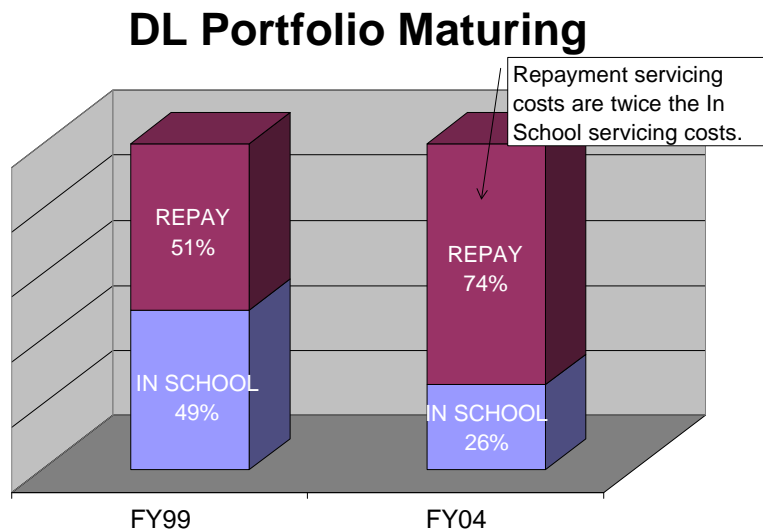
Surveys aren't the only way we'll find out what our customers want — or what they think of what they're getting. Our call center operators, for example, will be able to evaluate customer satisfaction with specific aspects of our business processes. We'll capture that information and get it to employees who can act on it. Our Ombudsman, who will focus on the most intractable service problems, will also collect information that we will use to improve the delivery system. Every time our organization contacts a customer, we'll take the opportunity to gauge our performance and find ways to improve it.

Cost. Our total cost of operations is being pushed strongly upward by two forces — increases in our total workload, and shifts from less expensive work to more expensive work. Our total workload is growing because the number of high school graduates is growing — and will continue to grow over the next decade — all the while the cost of college continues to climb. That means a sharply growing demand for student aid. By 2004, we expect the Direct Student Loan portfolio to double, the much larger FFEL portfolio to increase by 20 percent, and application volume to grow by nearly a million. And, of course, integrating and modernizing our computer systems and improving customer service entails a lot more work, too.

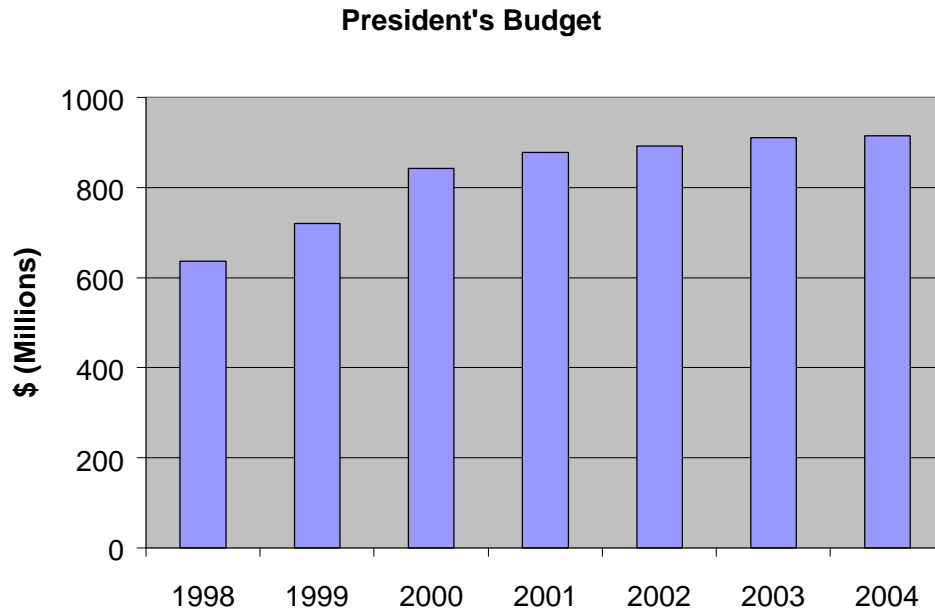


Besides the higher cost of more work, the makeup of our work is shifting to a more costly mix. The shift has two important components. First, as shown in the preceding figure, the Direct Loan portfolio, for which SFA bears all the servicing costs, is growing at a faster rate than the FFEL portfolio, for which SFA's budget includes only the cost of oversight and guaranty agency fees. (See Appendix E for a complete cost comparison.)

Second, the relatively young Direct Loan portfolio is maturing. Right now, most Direct Loan borrowers are still in school, the time when our servicing cost is lowest. But in the next five years, more and more of them will graduate and begin repaying their loans, as illustrated by the following figure. Our servicing costs in the repayment phase are about twice those of the in-school phase.

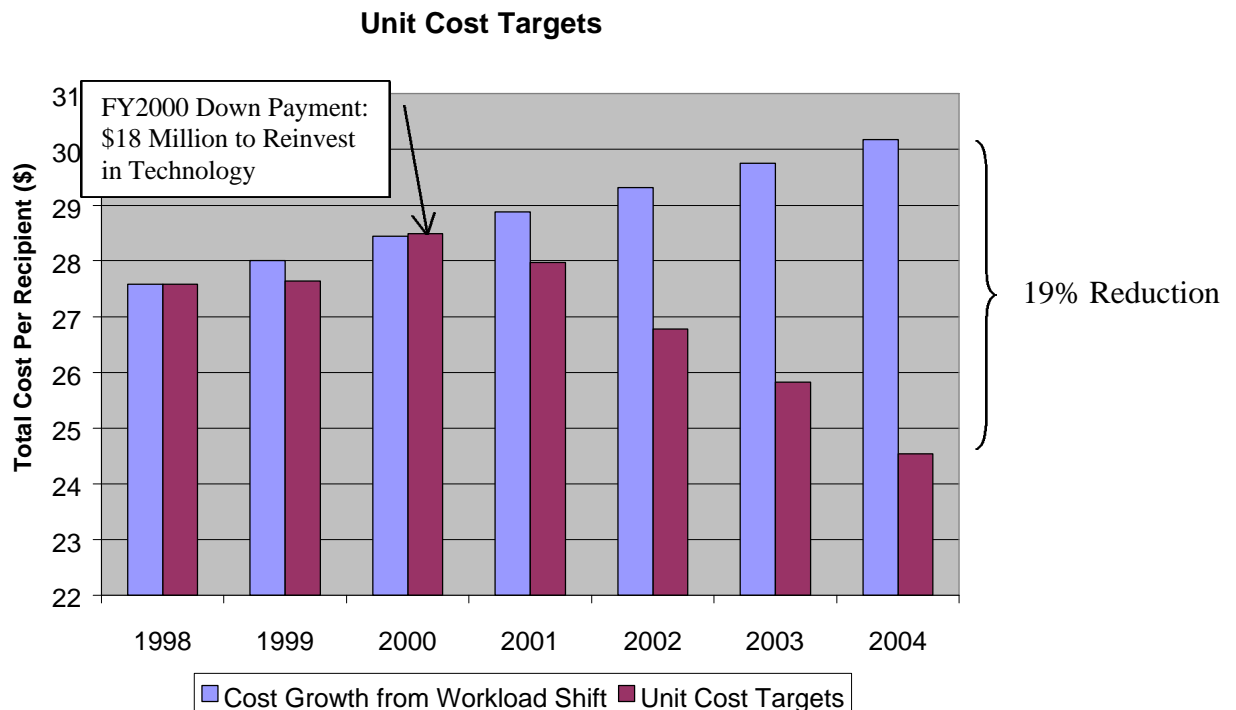


While workload growth and shifts to more expensive work are driving costs up, the President's budget is fairly flat beyond FY2001, as shown in the following graph.



We are focused on the cost of delivering aid and services to each recipient. Dividing our budget by our recipients gives our unit cost. In aggregate, it is the total cost of our activities divided by the number of recipients of loans and grants. In daily practice, we will track and manage all the costs of individual activities (activity based costing) that generate products and services such as loans, grants, applications, telephone assistance, and mailing notices.

Our five year commitment is to cut unit cost enough to overcome both the increase in workload and the unavoidable shift to a more expensive phase in servicing operations, and stay within the President's Budget. The shift to a more expensive phase of servicing by itself would drive overall unit costs up by ten percent over the next five years. The following graph shows our current unit cost targets by year until 2004. Simply put, we will cut unit cost by 19 percent by 2004.



That hard fact compels us to move aggressively away from pushing paper and toward electronic transactions, which provide better service at a vastly reduced unit cost. For example, data from the Federal Reserve member banks show that electronic applications for installment loans cost less than two dollars each, compared with more than \$40 for paper applications —

and that electronic loan payments cost about 12 cents each, compared with two dollars for non-electronic payments. We also know from our own experience that electronic applications are as much as 25 times less likely to contain errors that cost money and delay service. The potential improvement in cost and quality is so large that we must develop strategies to provide electronic service even to those who may not now have access to the Internet.

Our graph of unit cost targets actually shows a slight increase in FY2000. That is because, besides servicing costs going up, we plan major investments in electronic solutions that are needed to reach our unit cost cutting targets in years two and three of our plan. However, \$18 million of the investment made in FY2000 will actually come from cost cutting actions this year. The balance of the investment comes from increases included in appropriations.

To show we are making cost cutting progress immediately, our annual report for FY2000 will specify the cuts made that reduce operating expenses by \$18 million. Note we have the double incentive to create these savings: first, to live up to this down payment pledge; and second, to fund the Systems Modernization Blueprint on which our future success depends.

Achieving the cost reduction goals — both the \$18 million down payment and the five-year reduction in unit cost — will be extremely challenging, but is perfectly possible. The strategy in our System Modernization Blueprint is stolen from the best financial service firms in the private sector, such as Bank America and Bank One. They have used the same system integration approach to cut operating costs by 20 percent. We are moving just as aggressively to cut costs. To meet our FY2000 target, we will shift over one million applicants from paper processing to electronic means. Also in FY2000, we will save ten percent on day in and day out computing costs by consolidating systems at our new virtual data center in Connecticut. Reengineering of our direct loan processing will also generate substantial savings. And even mundane things like presorting bulk mail to reduce postage rates can generate millions to reinvest in technology in FY2000.

Tombstone Territory

We have to overhaul our old computer systems if we're to cut cost and deliver modern service. Our System Modernization Blueprint (<http://sfablueprint.ed.gov>) follows this basic strategy:

- Use middleware to separate applications from their “stovepiped” databases.
- Use a secure Intranet to create a virtual database for new applications, with information stored only once.
- Retire or transform many of the old systems over the next three years — the Blueprint uses a little tombstone to mark each passage.

Net losses

Cutting our administrative unit cost is not our only way to save. Reducing defaults (See Appendix F) or increasing collections can rack up potentially bigger savings. Our net losses (defaults minus collections) in 1998 totaled \$775 million, nearly twice as much as our \$433 million administrative cost.

Calculating multi-year projections for net losses is inherently more complex than calculating projections for administrative unit costs. Default rates and collections have been changing dramatically in recent years, in part because of management steps such as removing problem schools from the program, counseling borrowers, and offering more

flexible repayment options, and in part because of the influences of a strong economy.

However, we can make these commitments concerning the net loss component of our unit cost. First, we will work to reduce our net losses by lowering defaults and improving collections, and we will report on our efforts. Second, we will determine a net loss reduction goal for FY2000. When we update our performance plan next year, we will be able to combine the administrative and net loss components of our unit cost into a single, total unit cost measure.

Employee Satisfaction. The reasons to measure customer satisfaction and cost are obvious. Employee satisfaction is also a high priority because top businesses have found that good service and cost control only happen when everyone — not just the boss — applies energy and creativity to those same goals.

What Workers Want

When asked, SFA employees said they want work that clearly makes a difference for America — and the training, tools, and responsibility to do that work well. In partnership with the union, all SFA managers have “delivering what workers want” high on their to-do list this year.

Just like customers, employees are the only legitimate judges of their own satisfaction. In 1998, the Office of Personnel Management conducted an employee opinion survey covering 49 federal organizations. The survey was designed to gauge employee perceptions of their agency’s progress in putting customers first, cutting red tape, and empowering front-line workers. In the initial survey, SFA employees ranked among the highest when it came to working in teams and improved flexibility and productivity. But they also noted problem areas, such as the lack of a system to capture customer feedback and get it to employees who can act on it, and weaknesses in management’s communication of the organization’s mission, vision, and values, and in taking corrective action when employees do not meet performance standards.

In addition to the information from the OPM survey, our Customer Service Task Force got input from hundreds of SFA employees about what would help them do a better job. The task force recommended that we:

- Develop mission-based job descriptions for all employees
- Institute a leadership development program that focuses on inculcating PBO principles and values
- Launch SFA University to transform SFA into a learning organization
 - Define SFA core competencies and conduct a gap analysis between current and desired skill levels
 - Implement a curriculum to develop SFA core competencies in each employee
 - Establish a career management plan with every employee through an Individualized Development Plan
- Give employees access to all of the information they need to answer customer questions and resolve most customer issues in one contact

- Determine employees' equipment (hardware and software), facility and supply needs, and close the gap
- Develop a range of incentives that address both intrinsic and extrinsic motivation
- Establish an *Ideas Advocate*
- Conduct structured interviews with departing employees
- Consolidate a number of employee feedback streams
- Provide a safe, healthy and attractive work environment
- Better meet the needs of disabled employees
- Use flexible workplace and flexible schedules
- Give employees the authority to act and the responsibility for results
- Conduct substantive orientation for all new employees, and current employees who have not had a substantive orientation

Obviously, we have a multi-year agenda to improve employee conditions and capabilities. We will work through our Labor-Management Partnership Council to identify our employees' most serious and immediate concerns and make solving them our action plan for year one.

As an overall measure of employee satisfaction, we can look at one of the key questions in the OPM employee opinion survey, which read, "*Considering everything, how satisfied are you with your job?*" Seventy-four percent of employees at the top-ranking agency, NASA, said they were satisfied or very satisfied with their jobs. Only 61 percent of SFA employees answered that question that way, slightly below average. SFA ranked 33rd out of 50 agencies on that question.

With a mission as inspiring as ours, our employee satisfaction rating should be tops. Anyone who doubts the inspirational power of our mission needs only to consider this e-mail we recently received:

Subject: *A Joyful Student*

Last Friday was the tuition deadline at our college. I spent a few hours at the front counter helping students. Some were happy, some were mad, but one was unforgettable.

She came in to check on the status of her aid. I told her we finished her yesterday. Pell had paid her tuition and fees and she could go to the bookstore anytime to charge her books. The student broke out in tears and said, "You mean I can go to college". It didn't matter how many students had complained that day. She is the one I'll remember.

Lisa A. Hanson

*Director of Financial Aid
Carl Sandburg College*

The employees of SFA help put America through school. Our goal is to raise the level of employee satisfaction into the top five of all government agencies within three years. They deserve no less.

OPM will be repeating their survey this December, and we hope to see some progress. But, as with the University of Michigan's customer satisfaction survey, OPM's government-wide survey sample is too small to make it a good SFA management tool. We will conduct far more detailed surveys using, among other sources, the annual employee ratings of their supervisors in the Department's performance appraisal system, to tell us which managers are bringing out the best in their workers, and how we are doing on issues that are most urgent to our employees.

As a FY2000 down payment on our long-range commitment to raise employee satisfaction, we will pick five big issues our Labor-Management Partnership Council identifies and make demonstrable progress on those five issues this year.



Performance of the Management Team

The core of the new SFA senior management team consists of the General Managers for Student, School, and Financial Partner channels, along with the Chief Information Officer and the Chief Financial Officer. To ensure that we work as a team, half of each manager's performance grade will depend on overall SFA performance in customer satisfaction, unit cost, and employee satisfaction. The other half will depend on meeting key operational performance levels and completing key projects.

Each of these managers is responsible for completing a list of first-year projects shown in Appendix A. Each manager's list includes ongoing operational responsibilities — in other words, they have to keep the trains running. For example, the General Manager for Students will make sure that we continue to process aid applications in six days or less. We could spend time and money trying to get that standard down to, say, five days. But we're not sure that would make much difference to our customers. Applicants might, for example, care more about getting confirmation that we have received their application — a change that would cost us less than speeding up the process. So, we are not automatically raising speed standards, nor chasing any goals the customers might not care about. Our surveys will tell us what they care about and where to focus our investments.

Appendix A does include projects that we already know customers care about — projects that came from the Customer Service Task Force “listening sessions” with our customers and with the front-line employees who know them best. One such project is implicit for all three General Managers — constantly keeping in touch with their customers to get ideas for more projects. That way, we avoid the most common mistake in customer service — deciding what the customers want without asking them.

Appendix A also includes projects that are required by statute. For example, The Chief Information Officer has important projects that fulfill our statutory requirements to improve and integrate support systems, and to develop an open, common, and integrated delivery and information system. The complete detail of our plan to improve and integrate systems is the System Modernization Blueprint (<http://sfablueprint.ed.gov>).

Two statutory projects are not in Appendix A, because they are completed. One is the establishment of an Ombudsman. The Office of the Ombudsman is now in operation, receiving calls on 1-877-557-2575, with a Web site at <http://sfahelp.ed.gov>. We have modeled our Ombudsman on the best in business. So, not only do borrowers have somewhere to turn to solve otherwise intractable problems, but the problems are analyzed and used to improve service and to avoid repeated problems. The second completed statutory project gives students secure Web access to their account information in the National Student Loan Data System.

The projects in Appendix A also include steps needed to resolve all outstanding issues involving financial system weaknesses that have been raised by the Government Accounting Office or the Departmental Inspector General. We have made good progress in the past year resolving such problems, and only a few remain. Our focus will be on beginning the implementation of a robust financial management system, continuing improvement of data quality and resolving audit findings more timely. While the Chief Financial Officer will provide leadership and direction for these efforts, all facets of the organization will provide input and support.

Next year, we will report on our progress in improving customer satisfaction and employee satisfaction, and reducing unit cost. In particular, we will report our achievements on the pledges of FY2000 down payments. We will also report our progress on the year-one projects listed in Appendix A, and will update the list with new projects that will matter to our customers.

Everything Aligned for Success

We have an extraordinary management team in place and it has the task of engaging the energies of our entire workforce in this extraordinary enterprise. With everything aligned, everyone's goals set, and everyone engaged, we will succeed in meeting the challenge as the nation's first Performance Based Organization.

Aligning Everything for Success

- First, our Customer Service Task Force opened channels of communication with customers and partners, finding out from them how to improve service.
- Then we reorganized our people and business processes to line up with those same channels, under General Managers for students, schools, and financial partners.
- Those channel managers took ownership of the computer applications and business processes, including support contracts, that serve their customer segments.
- Our System Modernization Blueprint borrows best-in-business practices from the financial sector, using middle ware to create applications that are focused on each channel and draw from common data that are stored only once. The Blueprint spells out projects to put in place in a modular fashion. The major projects will go to our Information Technology Investment Review Board, as required by the Clinger-Cohen technology management legislation, in order to determine which goes first, second, and so on, so they produce maximum service improvements and savings.
- Our new financial management system will allow every channel and segment manager to focus attention on making SFA not only work better, but cost less.
- Using our PBO flexibility, we acquired a Modernization Partner from the private sector who will share the risks and rewards of making the Blueprint a reality.
- Support contracts are also being renegotiated to put them on the same performance basis we are on — with incentives to improve service and cut costs.